

VZCZCXRO4811
RR RUEHBI RUEHCI RUEHLH RUEHPW
DE RUEHEK #0999/01 2741018
ZNY CCCCC ZZH
R 301018Z SEP 08
FM AMEMBASSY BISHKEK
TO RUEHC/SECSTATE WASHDC 1401
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
RUCNCIS/CIS COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 2689
RUEATRS/TREASURY WASHDC
RHEFDIA/DIA WASHDC
RUEKJCS/OSD WASHDC
RUEAIIA/CIA WASHDC
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUEHGV/USMISSION GENEVA 1054
RUEHVEN/USMISSION USOSCE 3076
RUCNDT/USMISSION USUN NEW YORK 2462
RUEHNO/USMISSION USNATO BRUSSELS BE
RUEHBS/USEU BRUSSELS
RUEHLMC/MILLENNIUM CHALLENGE CORP
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL

C O N F I D E N T I A L SECTION 01 OF 02 BISHKEK 000999

SIPDIS

DEPT FOR SCA/CEN (GORKOWSKI), INR (WEBER)
TREASURY FOR LAWRENCE NORTON

E.O. 12958: DECL: 09/30/2018

TAGS: [EFIN](#) [ECON](#) [PREL](#) [PINR](#) [SOCI](#) [KG](#)

SUBJECT: TROUBLE BREWING AT KYRGYZ MINISTRY OF FINANCE

REF: BISHKEK 086

BISHKEK 00000999 001.2 OF 002

Classified By: Amb. Tatiana Gfoeller, Reason 1.4 (b) and (d).

11. (C) Summary: In an apparently unprecedented move, President Bakiyev summoned Minister of Finance Kalimbetova, her staff, and international donor representatives to a September 25 meeting at the Kyrgyz White House. Bakiyev expressed disappointment at the slow pace of financial management reform, and criticized Kalimbetova for not providing "concrete answers." His public scolding of Kalimbetova may signal her imminent departure. Despite the public rhetoric about reform, such a step would permit government finances to fall into more "trusted hands," at the same time that government tax collections are being channeled through Kyrgyzpromstroybank, a bank taken over earlier this year by associates of President Bakiyev's son, Maxim. End summary.

Discord at the Ministry

12. (C) In a September 24 meeting, International Monetary Fund (IMF) resident representative James McHugh advised Emboff of a brewing "civil war" within the Ministry of Finance, pitting Minister Tadjikan Kalimbetova against State Secretary Melis Mambetjanov. While McHugh ascribes the latest conflict to questions about the use of U.K. technical assistance at the Ministry, he indicated that this small issue was a subset of the larger problem of public finance (mis)management. According to IMF reports, the Kyrgyz budget system is plagued by inconsistent accounting systems that present opportunities for siphoning off funds. McHugh added that President Bakiyev learned of these problems from his top economic advisor and World Bank officials, and had summoned the entire staff of the Ministry of Finance and several donor organizations (including the IMF and USAID) to a meeting in his White House office September 25.

¶3. (C) Prime Minister Chudinov and Presidential Chief of Staff Sadyrkulov sat quietly next to Bakiyev as the President opened the September 25 meeting with a request for details about the current status and future of public finance reform in the Kyrgyz Republic. Minister Kalimbetova gave a short presentation highlighting reforms in budgeting, taxes, auditing and other areas as well as cooperation with other government ministries. After asking Kalimbetova when results could be anticipated, Bakiyev interrupted Kalimbetova's reply by saying "I asked a concrete question; I want a concrete answer." He then criticized the Ministry for lacking "discipline," and said that there were no street demonstrations that could serve as a distraction from reform. Bakiyev said that the Ministry is full of "young workers who we have in the room today," who are also ready to reform.

Unprecedented Donor Community Role

¶4. (C) Many donors, including USAID, could not recall attending any similar meeting between Bakiyev and a minister. Both Bakiyev and Kalimbetova praised donors for their assistance, and after chiding Kalimbetova, Bakiyev asked the donor community for their views. World Bank Country Manager Roger Robinson noted the importance of reform, and reviewed some of the donor assistance that had been provided. Robinson proposed the creation of a "Center of Excellence" within the Ministry to serve as a training center for staff and a model for how to manage public finance.

BISHKEK 00000999 002.2 OF 002

Setting Objectives

¶5. (C) After restating the importance of "real results" in the next one or two years, Bakiyev outlined improvements needed at the Ministry of Finance: 1) better planning in conjunction with the Ministry of Economic Development and Trade and the Central Bank; 2) a more realistic government budget; 3) planning for the country's energy issues; 4) leading reform of the state management system; 5) realizing uniform budget data across the government; 6) developing more timely and reliable plans; and 7) the need to move from experimentation to actual reform. In closing, he stressed the need to "work as one team" and praised the capable "young people" now in the Ministry.

Comment

¶6. (C) The public scolding of Minister Kalimbetova and her apparent lack of leadership could indicate that she is on her way out. As the Ministry of Finance has direct access to government funds, outside observers have been concerned about insiders' abilities to siphon funds from ministerial accounts. If Kalimbetova is ousted, control of government finances could shift to more trusted hands. Interestingly, Mambetjanov, Kalimbetova's "adversary" in the Ministry, is also the son-in-law of President Bakiyev's influential Chief of Staff Medet Sadyrkulov. In another potentially related development, the IMF's McHugh told Emboff that Kyrgyzpromstroybank (KPSB), which was taken over by associates of President Bakiyev's son Maxim with the assistance of the Kyrgyz Central Bank and Social Fund earlier this year (see reftel), has become the main conduit for funds transferred from the Kyrgyz tax service to the Central Bank. While centralizing transfers to KPSB could simply be a means to streamline operations, KPSB's links to Maxim Bakiyev make this change worth noting.

GFOELLER